

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
APRIL 1, 2003 TO JUNE 30, 2003**



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July 11, 2003

The Honorable Kevin G. Miller, Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period April 1, 2003 through June 30, 2003.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

EXECUTIVE SUMMARY

COMMONWEALTH COMPETITION COUNCIL

In accordance with Item 62 of Chapter 899 of the 2002 Acts of the Assembly (Appropriation Act), we must “certify to the Comptroller the total new savings realized by state agencies in the preceding fiscal year as a result of Commonwealth Competition Council recommendations.” The Commonwealth Competition Council submitted on January 6, 2003 a letter with supporting information to the Director of the Department of Planning and Budget a list of items for consideration, which it believes complies with the provision of the Appropriation Act.

The Director of Planning and Budget has completed his review of the submission of Commonwealth Competition Council and notified both the Commonwealth Competition Council and the Auditor of Public Accounts of his finding in a letter dated March 28, 2003.

The Commonwealth Competition Council did not provided any evidence to support any new savings. Our understanding of Item 62 of the Appropriation Act requires that we be able to associate the saving with an action of the Commonwealth Competition Council and we cannot make this association.

COMMONWEALTH OF VIRGINIA’S FIXED ASSET ACCOUNTING AND CONTROL SYSTEM

We have reviewed the Commonwealth of Virginia’s Fixed Asset Accounting and Control System and the Commonwealth’s internal controls and guidance over reporting capital assets to the Department of Accounts for inclusion in the Commonwealth’s Comprehensive Annual Financial Report. We excluded infrastructure assets from this review. Overall, we have determined that state agencies and institutions are properly recording and reporting fixed assets, however there is need to improve the recording and reporting process and the relative guidance the Department of Accounts provides.

We have determined the Fixed Asset Section of the Commonwealth Accounting Policies and Procedures Manual does not provide agencies with the guidance necessary for them to properly record and report assets and their related depreciation. We determined that Accounts did program FAACS to properly calculate depreciation, maintain asset values, and accumulate ongoing depreciation balances. However, the accuracy of this information is dependent on the information that the individual users enter in the system, which is dependent on the users understanding the information they enter and how to use FAACS. We determined that there are several recordkeeping and policy issues that caused the Commonwealth to appear to have a large number of assets still in use with a zero value. These reasons include a lack of emphasis over the length of useful lives for depreciation, the use of improper useful lives, a lack of a policy requiring salvage values, improper recording of the disposal and surplus of assets, and a method to record additions and renovations that results in assets appearing to have a zero value but is necessary.

This report contains a series of recommendations on actions that the Department of Accounts can take to address the issues above. These actions should improve the use of the information available on general fixed assets and strengthen the agencies and institutions control over these assets.

DEPARTMENT OF STATE POLICE

Improve Systems Development Process

Over the past several years, State Police has expended significant resources to obtain a new communication system and update and make its systems Y2K ready. The future of the communication system is critical to the future planning and direction of technology within the department. As a result, State Police has not concentrated on long-range strategic planning to address the department's information technology needs.

The age, level of technology, and internal needs for information and equipment have reached a point where the State Police needs to develop both a short-range and long-term strategy to address its information technology needs. This process needs to follow the guidance issued by the Department of Technology Planning and should include establishing an internal management structure to set technology needs.

The State Police should establish an internal management structure that consists primarily of non-technical personnel who provide an operational viewpoint to the planning process. This group should work with the State Police's information technology management and staff in setting realistic priorities for equipment, as well as, systems development. The Superintendent should provide the group with the authority and responsibility of holding group and information technology management accountable for addressing the needs of the agency.

Below are some examples of the technology issues facing the State Police. These issues emphasize the need for strategic planning and setting priorities. Some of the problems cited have now become interrelated. As an example, until the State Police can resolve the issue they face concerning the potential lack of vendor support for their primary computer system, then it is unlikely and probably cost inefficient to change any of the programs operating on this system.

Inadequate Information Systems Strategic Planning

The majority of State Police's data resides on a Unisys IX 4400 platform. The software and operating system for this platform must be licensed by the Unisys Corporation. The State Police's five-year lease for the system software will expire on November 30, 2003. After that date, the cost to continue operating the current Unisys system will be approximately \$85,000 per month. The State Police has obtained funding and approval to replace the Unisys system, which will allow the State Police to upgrade and update the equipment and operating system. However, the funding will only convert the existing programs to a software product that will require substantial changes to maintain current functionality. These systems will remain in the older technology and will eventually require replacement.

The current plans to replace the system do not provide long-term solutions, rather, these plans present a quick, short-term solution that resolves only immediate issues. If the State Police pursues this plan, the department will incur significant additional funding needs for upgrading and improving the system and possibly having to acquire additional equipment. In order to support technology investment decisions, we recommend the State Police develop a long-range information technology plan that identifies their current and anticipated technology requirements. Without appropriate long-term systems development plans and procedures, the State Police risks failure or premature obsolescence of new systems. This will result in wasted resources and failure to meet business needs. The State Police is currently considering a proposal to hire an independent systems development consultant to evaluate their long-term needs.

Lack of Formal Systems Development and Program Change Guidelines

The State Police does not have an effective mechanism to set priorities for the development and implementation of systems development and program change requests. Most organizations have a mechanism to evaluate both the cost and benefit of each program change, or systems development request. The mechanism not only reviews the cost and benefit, but also assigns the request a priority status and at least semi-annually reports to management the progress of implementing the changes. This mechanism also annually reviews all outstanding, but uncompleted requests, and re-evaluates their cost and benefit and priority. As part of the re-evaluation mechanism, the review also examines if new or other technologies now exist to complete the task.

Several of the outstanding system changes or development requests could improve the use of department resources and improve the efficiency of operations, allowing for the allocations of those resources within the State Police. As part of the audit, we reviewed the listing of outstanding changes requested between this year and last year. There are approximately 80 outstanding program change requests that have been on the list for several years. Below is a partial list of change requests, that remain outstanding. These types of changes have saved other state agencies resources, or are necessary to the continued funding of the State Police.

The report includes a series of examples of the outstanding changes and a brief history of the change request.

State Police has consistently experienced shortages in systems development staff. This shortage and the lack of an effective mechanism to evaluate changes and set priorities have led to the significant backlog in requests for services. State Police should evaluate the current systems development process and seek alternative solutions to promote efficient operations throughout the department.

VIRGINIA PUBLIC BROADCASTING STATIONS, COMPARATIVE REVENUE AND FINANCIAL REPORT

In accordance with Section 59.15 C.2.A. of the 2003 Appropriation Act, we developed a comparative revenue and financial report covering the Blue Ridge Public Television, Inc. (WBRA), Commonwealth Public Broadcasting (WCVE and WNVN), Greater Washington Educational Television Association (WETA), Hampton Roads Educational Telecommunications Association (WHRO), and Shenandoah Valley Educational Television Corporation (WVPT) and provide such information to the Secretary of Administration and the Virginia Public Broadcasting Board so the findings of such report can be used to assist the Secretary and the Board in developing an appropriate and equitable formula for distributing Community Service Grants. The report included a review of any Corporation for Public Broadcasting, or related federal agency, audits or assessments of the Virginia public broadcasting organizations. A copy of the report is available on our website at <http://www.apa.state.va.us/reports.htm>.

VIRGINIA STATE UNIVERSITY

Improve Contract Administration

Background

In the past fiscal year, the University's internal auditor and Auditor of Public Accounts staff have found over \$800,000 in questionable contracting practices and procedures and have questions about the quality of work performed over a three-year period. The University has investigated the work of at least three contractors and found violations of the procurement act, disregarding of internal procurement procedures, and a lack of inspections and other reviews to ensure the quality of work performed.

The University's Director of Residence Life had primary responsibility for scheduling and determining the scope of the work and had to coordinate the work with Facilities Management. The University has an outsourced contractor operating its Facilities Management and related procurement responsibilities. The University expected that its employees and the contractor would fully comply with the State's Public Procurement Law and University procurement policies as well as exercise all due diligence procedures over contracts and work performed. The Director of Residence Life and the contractor's on-site manager appear to have placed timely completion of work as their priority ahead of complying with State procurement policies.

As a result, the Director of Residence Life and the contractor's managers used several standing time and material contracts with different vendors to perform work and bypassed both internal and state policies and procedures. Listed below are some examples of how these individuals used time and material contracts to bypass established procedures. To understand these examples, the reader needs to have the following basic understanding of the time and material contracts.

The University awards time and material contracts for various construction trades to perform small non-routine or emergency work, and larger work for which the University does not have adequate staff to meet scheduled deadlines. As an example, the University may issue a plumbing contract and building and grounds would use the contract for emergency plumbing work to reconnect a moved cafeteria sink, or the University may engage a painting firm to repaint an entire dormitory during an available two week period in the summer

University policy requires special budgetary and other approvals for any work over \$5,000 and this dollar level of work requires the start of a competitive selection process for choosing a vendor. Any work over \$50,000 requires the publication of job requirements and written bids and evaluations.

Findings

The review found the following types of transactions:

- Issuing purchase orders to perform work not covered by the trade time and materials contract. As example, having electricians perform carpentry work.
- Issuing multiple purchase orders under \$5,000 for work on a single project thereby avoiding having to seek competitive bids or to prepare written requirements.

- Providing the trade contractor with a detailed description of the work, but omitting this information on the purchase orders accompanying the contractor's invoice approved for payment.
- Issuing purchase orders without any specific description of the work performed, only the agreed dollar amount.
- Maintaining no documentation or indication of any inspection or approval of work performed.
- Allowing vendors to submit invoices with only references to the purchase order, thereby precluding payment processing from having information to review the billing. The time and material contracts require the vendor's invoice to include information on time spent by level of employee so payment processing would be able to compare the hours and amounts charged to the contract.

Internal Actions Taken

The University is continuing to investigate if it received full value for the services it purchased and whether the University can recover payment for any times when it did not receive full value. Additionally, the Vice President for Administration and Finance issued new policies and procedures for time and materials contracts on February 26, 2003, and April 3, 2003. Management also conducted mandatory attendance workshops on the use of, and responsibilities under, time and materials contracts. Management should continue to improve their administration of these contracts to ensure that the University is obtaining quality services at a competitive price.

Remaining Issues

The Facilities Management contractor employed managers who participated in the authorization, approval, oversight, and management of these contracts. While it appears that the contractor agreed to comply with both the Commonwealth and University procurement requirements, contractual provisions governing this contract are not as clear as to the obligations of each party.

The University and the contractor have made numerous changes to the original contract over time and some of these changes do not clearly define what duties and responsibilities the contractor and University are assuming.

As an example, without properly defined responsibilities included in the contract, the University cannot ensure that they are receiving the appropriate services. The University could be paying for outsourced work orders when the vendor is responsible for those tasks under the contract.

Additionally, the University needs to evaluate how it wants the contractor to operate and what oversight duties the University is willing to assume. If the University is going to require contractors to comply with Commonwealth and University policies and procedures in areas, such as procurement or the use of standing contracts, then the University needs to take a more active role in supervising the contractor and monitoring their understanding and compliance with these policies.

The University cannot assume that the contractor will have the knowledge and training to follow these policies or that their business process will adapt to this environment. A contractor agrees to deliver and maintain a level of service while still making a profit. Sometimes, compliance with Commonwealth and University policies may require competition to the exclusion of other matters.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period April 1, 2003 through June 30, 2003. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Judicial Branch

The Virginia State Bar for the year ended June 30, 2002

Executive Departments

Commerce and Trade

Department of Forestry for the period March 1, 2001 through December 31, 2002
Virginia College Building Authority for the year ended June 30, 2002
Virginia Public Building Authority for the year ended June 30, 2002

Education

Colleges and Universities

Christopher Newport University for the year ended June 30, 2002
George Mason University for the year ended June 30, 2002
George Mason University, Intercollegiate Athletic Programs for the year ended June 30, 2002
Longwood College for the year ended June 30, 2002
Mary Washington College for the year ended June 30, 2002
Old Dominion University for the year ended June 30, 2002*
Radford University for the year ended June 30, 2002
Radford University, Intercollegiate Athletic Programs for the year ended June 30, 2002
WNSB-FM Radio Station (A Public Telecommunications Entity Licensed to Norfolk State University) for the year ended June 30, 2002
Virginia Military Institute for the year ended June 30, 2002*
Virginia Military Institute, Intercollegiate Athletic Programs for the year ended June 30, 2002
Virginia State University for the year ended June 30, 2002

Natural Resources

Department of Conservation and Recreation for the year ended June 30, 2002*

Public Safety

Department of Juvenile Justice for the year ended June 30, 2002*

Department of State Police for the period January 1, 2001 through December 31, 2002*

Independent Agencies

State Corporation Commission for the year ended June 30, 2002*

Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2002
and the six-month period ended December 31, 2002

Virginia Public Broadcasting Stations, Comparative Revenue and Financial Report for
the year ended June 30, 2002

Special Reports

Commonwealth Competition Council, Special Report dated April 2003*

Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2003
to March 31, 2003

Special Review of the Commonwealth of Virginia's Fixed Asset Accounting and
Reporting System dated January 2003*

Clerks of the Circuit Courts

Cities:

City of Bristol for the period October 1, 2002 through April 30, 2003

City of Chesapeake for the period January 1, 2002 through December 31, 2002*

City of Hampton for the period January 1, 2002 through March 31, 2003*

City of Newport News for the period April 1, 2002 through March 31, 2003

City of Petersburg for the period January 1, 2002 through December 31, 2002*

City of Staunton for the period January 1, 2002 through December 31, 2002*

City of Waynesboro for the period April 1, 2002 through March 31, 2003

Counties:

County of Amherst for the period April 1, 2002 through March 31, 2003*
County of Bland for the period January 1, 2002 through December 31, 2002
County of Buchanan for the period January 1, 2002 through March 31, 2003*
County of Campbell for the period April 1, 2002 through March 31, 2003
County of Charles City for the period January 1, 2002 through December 31, 2002*
County of Chesterfield for the period January 1, 2002 through December 31, 2002
County of Clarke for the period January 1, 2002 through December 31, 2002*
County of Dickenson for the period January 1, 2002 through December 31, 2002
County of Fauquier for the period January 1, 2002 through March 31, 2003
County of Fluvanna for the period April 1, 2002 through March 31, 2003
County of Giles for the period April 1, 2002 through February 28, 2003*
County of Gloucester for the period January 1, 2002 through December 31, 2002*
County of Greene for the period January 1, 2002 through December 31, 2002*
County of Henrico for the period January 1, 2002 through December 31, 2002
County of Henry for the period January 1, 2002 through December 31, 2002
County of Richmond for the period April 1, 2002 through March 31, 2003
County of Rockbridge for the period January 1, 2002 through December 31, 2002
County of Smyth for the period January 1, 2002 through March 31, 2003*
County of Southampton for the period April 1, 2002 through March 31, 2003
County of Stafford for the period January 1, 2002 through December 31, 2002
County of Tazewell for the period January 1, 2002 through December 31, 2002*
County of Wise for the period January 1, 2002 through March 31, 2003
County of Wythe for the period January 1, 2002 through December 31, 2002

**Commonwealth Revenues Collected by
Constitutional Officers**

Comparative Report of Local Government Revenues and Expenditures for year ended
June 30, 2002